



STATE OF WASHINGTON
OFFICE OF MINORITY AND WOMEN'S BUSINESS ENTERPRISES

406 SOUTH WATER • POST OFFICE BOX 41160 • OLYMPIA, WASHINGTON 98504-1160

(360) 753-9693 • FAX (360) 586-7079

February 10, 2009

TO: Certified Firms

FROM: Jill Gravatt, Investment Officer
Office of the State Treasurer

Cynthia Cooper, Director
Office of Minority and Women's Business Enterprises

SUBJECT: LINKED DEPOSIT PROGRAM – INTEREST RATE REDUCTION

The Office of the State Treasurer and the Office of Minority and Women's Business Enterprises have recently received inquiries concerning the interest rate reduction authorized by the Linked Deposit Program ("LDP"). The following information is provided in response to those inquiries and future questions.

Because of the current market environment, the interest rate on the Linked Deposit certificates of deposits is set at the floor of two percent. The calculated rate¹ has been at a negative percentage for the past couple of months. The adjusted rate will be given to banks on a monthly reporting form when each certificate of deposit matures.

As a result, banks have the option, according to RCW 43.86A.060(d)² of adjusting the interest rate reduction below two percent or giving no interest rate reduction on the Linked Deposit loans they make to certified firms. Banks are allowed per statute to adjust the rate on Linked Deposit loans until market rates change.

cc: Participating Banks

¹ Monthly Rate Calculation Formula

The monthly rate for the Linked Deposit certificate of deposit will be based on the bond equivalent yield of the old 2-year Note that now has one year to maturity. The formula will be the ask yield of the one-year Note, plus 50 basis points, LESS the 200 basis point differential designated in statute. The source for the yield of the one-year Note will be from the Bloomberg system as of the rate setting date. Interest will be calculated on an actual/360 day basis (non compounding) and paid monthly to Office of State Treasurer.

² RCW 43.86A.060 (2)(d) provides that no certificate of deposit will be issued with an interest rate of less than two percent. When the interest rate falls below two percent, the Banks may adjust the interest rate reduction to reflect the difference. Until that time, all loans should carry the full two percent reduction.

